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C O N F I D E N T I A L SECTION 01 OF 02 MADRID 000288

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TAGS: [ECIN](#) [ECON](#) [EFIN](#) [EUN](#) [PREL](#) [SP](#)  
SUBJECT: SPAIN: DEMARCHE ON FINANCIAL CRISIS IN  
CENTRAL/EASTERN EUROPE

REF: A. SECSTATE 23758  
[1](#)B. MADRID 240

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Classified By: A/DCM William Duncan for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary and Comment. Economy Ministry and Presidency officials acknowledged March 17 the importance of support from the international community and the EU for troubled central and eastern European economies on a case-by-case basis, though one official noted that direct EU support for non-member countries was a more complicated issue. We believe Spain is likely to take a back seat in intra-EU discussions on this issue to countries closer to the region and those whose banks are more exposed. Spain appears likely to go along with the EU majority on issues such as increasing IMF NAB resources, though there was a suggestion that the GOS might be open to a greater increase. Spain is not ready to pursue additional stimulus measures, and our interlocutors argued that the GOS had already undertaken a significant effort that has taken it from a 2% of GDP surplus in 2007 to a 6% deficit this year. They agreed on the dangers of protectionism, and one interlocutor noted the usefulness of economic summits in exercising peer pressure on leaders to discourage protectionism. End Summary and Comment.

Following EU Line on Central/Eastern Europe  
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[1](#)2. (C) Econcouns delivered reftel demarche in separate meetings March 17 to Economy Ministry Director General of Macroeconomic and International Affairs Alvaro Sanmartin and to Presidency Economic Office Director of Economic Policy Jose Ignacio Conde. Both agreed that it was important that EU members and the international community support European emerging economies on a case-by-case basis. They did not enter into specific discussions of individual countries, but one of Conde,s staffers, while acknowledging the importance of supporting non-EU European countries, said direct EU support was a more complicated issue for the EU than direct support for EU members. In response to our point on revisiting Euro adoption procedures, Sanmartin emphasized the importance Spain and other Eurozone countries placed on maintaining existing requirements for Euro membership.

IMF Resource Increase  
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[1](#)3. (C) Sanmartin welcomed the G20 finance ministers, commitment to increase IMF resources, but officials in both meetings acknowledged that the EU favored a lower NAB increase than the USG. According to Sanmartin, EU members are expected to discuss this further during the March 19 and 20 European Council meeting. One of Conde,s staffers told us that the GOS had proposed that the statement for the Council meeting call for increasing the NAB by "at least" \$250

billion, but that "at least" had been taken out by others.

#### No More Domestic Stimulus

¶4. (C) Sanmartin and Conde said the GOS did not believe it could enact additional stimulus measures, adding that Spain would be "in the middle" (presumably between the US and Germany) during London summit discussions of stimulus efforts. Spain has gone from a 2007 budget surplus of 2.2% of GDP to a projected 2009 deficit of almost 6% , and Sanmartin said the actual 2009 deficit would likely be worse.

Our interlocutors argued that Spain has already undertaken a major stimulus effort, including an 18 billion euro tax rebate and relief package in April 2008 and an 11 billion euro infrastructure investment package in November (ref b). Sanmartin also highlighted the stimulus impact of Spain's automatic stabilizers, specifically its generous unemployment benefits (unemployment is over 14 percent and rising rapidly). Both cited the risks of excessive deficits and the need for an exit strategy once the crisis is past.

#### Protectionism and Summits

¶5. (C) Conde and Sanmartin both agreed with Econcouns on the dangers of protectionism, financial and otherwise. Sanmartin pointed out that the economic summits acted as an efficient "peer pressure" check to discourage world leaders from engaging in much protectionism. Sanmartin also noted that the economic summits and the current crisis provided an excellent opportunity to advance on longstanding problems such as reform of tax havens, even if they were not significant factors in the crisis. Both Sanmartin and Conde expressed pleasure that Spain had been invited to join the

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Financial Stability Forum and noted that Spain continued its efforts to gain full G-20 membership. Both said the country,s experience with banking regulation gave it something to contribute to these bodies.

#### Comment

¶6. (C) The GOS acknowledges the importance of helping troubled central and eastern European economies, but it is likely to defer in intra-EU discussions to countries whose banks and economic interests are more directly at risk. In general, our interlocutors were reluctant to show any daylight between their views and EU positions.

CHACON